

Now What Do We Do??

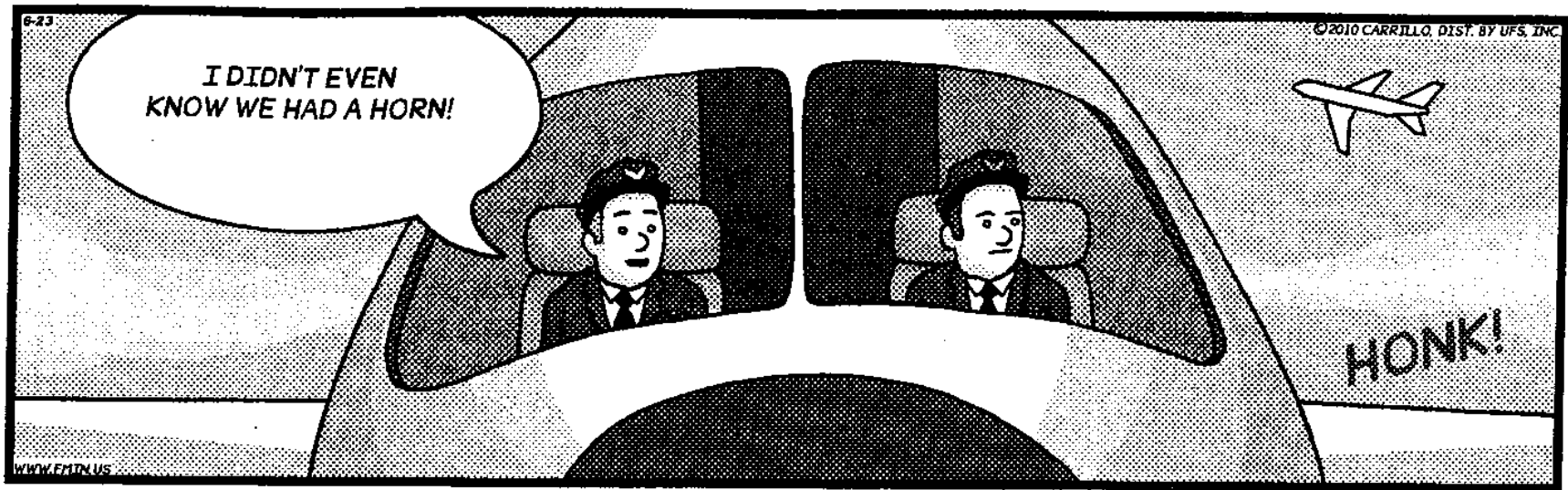
OPEB (GASBS 45)

Other Post Employment Benefits

What is OPEB?

- OPEB = benefits that an employer offers to retirees as compensation for past services.
 - Generally - Healthcare benefits (medical, dental, vision, hearing)
 - Under certain circumstances, may also include life, disability and long-term care insurance.
 - Termination benefits are NOT OPEB – example: early retirement incentive = benefits given as an inducement to employees to hasten termination of services, not as compensation for past services (COBRA is a form of termination benefit)

Do You Have an OPEB Liability?



Do You Have an OPEB Liability?

- MCA 2-18-704 – Any local government that offers group health insurance (whether required or not) must offer retirees the option to remain a member of the group plan until he/she is eligible for Medicare.
 - Applicable only if the employee retires under the appropriate retirement provisions of a defined benefit plan provided by law (or PERS defined contribution plan).
 - If the local government is not a member of a retirement system (PERS, SRS, FURS, MPORS, TRS), this requirement is not applicable.
 - The local government is not required to pay the premium for the retiree but may still be offering OPEB.
 - Does apply to special purpose districts.

Do You Have an OPEB Liability?

- These State requirements may establish OPEB called the “Implicit Rate Subsidy”.
 - When a government’s retirees and current employees are insured together as a group, the premiums paid by the retirees may be lower than they would have been if the retirees were insured separately – this is defined as an **implicit rate subsidy**. **Implicit rate subsidies are considered to be OPEB - even when there is no employer contribution.**
 - Example: “Blended premium” = \$300/month for both active employees and retirees. “Fully age-adjusted premium” for actives = \$200 & for retirees = \$400. \$100 excess that the employer is paying for actives is not a current health care cost, but is instead the Implicit Rate Subsidy (OPEB).


Do You Have an OPEB Liability?

- Your local government may offer other OPEB also – such as the offer to pay the full premium for a retiree that chooses to stay on the plan (e.g., hiring incentive).
- Substantive Plan = plan terms as understood by employer and employees
 - Written or unwritten
 - Established pattern of practice

Do You Have an OPEB Liability?

- Each situation is different!!!!
 - Discuss situation with insurance provider – blended rate or fully-age-adjusted rate?
 - Example of possible No “Plan”: Historically hire young people @ low pay – no one stays in position for more than a few years – no one has ever retired from position – *possibly* no OPEB.
 - If you have one employee that is nearing retirement and planning on remaining on the plan at retirement – you have OPEB!
 - Discuss specifics of your plan with auditor early on

OPEB Liability Recognition

- OPEB liability/expense – Although the “benefit” is not realized until an employee retires, OPEB is required to be recognized during employee’s active service. The liability is reduced (1) upon retirement, as “benefits” are used, or (2) as paid in cash.
- **Assumptions:** ● Start work at age 25 – work for 30 years till age 55. ● Retirement from age 55 to age 65 – State law requires that you be allowed to stay in group health plan. ● Age 65 become eligible for Medicare – no longer eligible to remain in group health plan.
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- OPEB liability/expense for the 10 years of retirement (turquoise) is required to be recognized (recorded and reported) in the 30 years of employment (gold).
 - This is why it doesn’t matter if you have no retirees currently – if you will have retirees at some point in the future, you must start recognizing OPEB now.

Financing of OPEB

- There is NO REQUIREMENT that your government finance OPEB.
 - GASBS 45 establishes standards for accounting and financial reporting, which apply regardless of how or when OPEB is financed. Whether to actually finance OPEB (e.g. establish an irrevocable trust) is a policy decision made by government officials.
 - LGSB *recommends* that you do NOT finance your Implicit Rate Subsidy OPEB.

What If I Don't Report my OPEB?

- If you are required to be audited for any given year , and have material OPEB that you do not report – you may receive a Qualified Opinion and/or audit finding. (Materiality is Auditor's Judgment.)
 - Bond Ratings – (suggestion: call your bond counsel)
 - A-133 – request waiver from oversight agency (federal agency that provides you with the most direct financial assistance)
- Reporting OPEB doesn't become an issue unless you have an audit requirement.

Options for Gathering OPEB Data

- Actuarial Valuation – required if your government has 100 or more total plan members (actives + retirees).
 - A retired employee (or beneficiary of a deceased retiree) and covered spouse or other dependent counted as a single plan member for this purpose.
 - **Must hire a professional licensed actuary.**

Options for Gathering OPEB Data

- Alternative Measurement Method – if less than 100 total plan members.
 - May hire a non-actuary to calculate OPEB.
 - May calculate yourself.
 - WARNING! – Example on GASB Website requires extensive modification. GASB example is not an example of the Implicit Rate Subsidy, although the process will be similar.

Alternative Measurement Method – Who Can Help?

- Actuarial firms that offer assistance with the AMM, as well as performing valuations:
 - Actuaries Northwest, LLC (Kelly Grebinsky, owner)
 - Issaquah, WA (425) 643-9185
 - Milliman – www.milliman.com
 - GASBhelp (online tool) <https://www.gasb45help.com/>
 - Corporate office - Seattle, WA (206) 624-7940
 - Healthcare Actuaries (Roger T. Burton)
 - 425-939-7444
 - www.HealthcareActuaries.com

Alternative Measurement Method – Who Can Help?

- Audit Roster Members that have informed LGSB that they will offer assistance with the AMM:
 - Cote & Wheeler, CPAs
 - Contact: Jennifer Cote (406) 543-8088
 - Denning, Downey & Associates, PC
 - Contact: Kim Downey (406) 756-6879
 - Wayne Hintz, CPA (406) 443-6220
 - Newland & Company, PC
 - Contact: Dick Tamblyn (406) 494-4754
 - Nicole M. Noonan, CPA (406) 649-2436

What to do with the Numbers?

- Numbers from the actuarial valuation or AMM report that you will use to record OPEB liability/expense:
 - Annual OPEB Cost
 - Net OPEB Obligation
 - Contributions
 - First year of GASBS₄₅ – Annual OPEB Cost is equal to the ARC (Annual Required Contribution)
 - Subsequent years – ARC will require adjustments to arrive at Annual OPEB Cost

What to do with the Numbers?

- 1. Debit –OPEB Expense . (object code #180)
 - Credit - Net OPEB Obligation (#23800)
 - To record OPEB long-term liability . [Use the amount of **Annual OPEB Cost** in your actuarial or AMM report here.]
 - In Proprietary Funds
 - In Government-Wide (GW) Statements
 - No Entry in Governmental Funds: As a reconciling item in the Reconciliation Statement – Governmental Fund Statements to GW Statements (Track in "GLTDAG" in AFR).

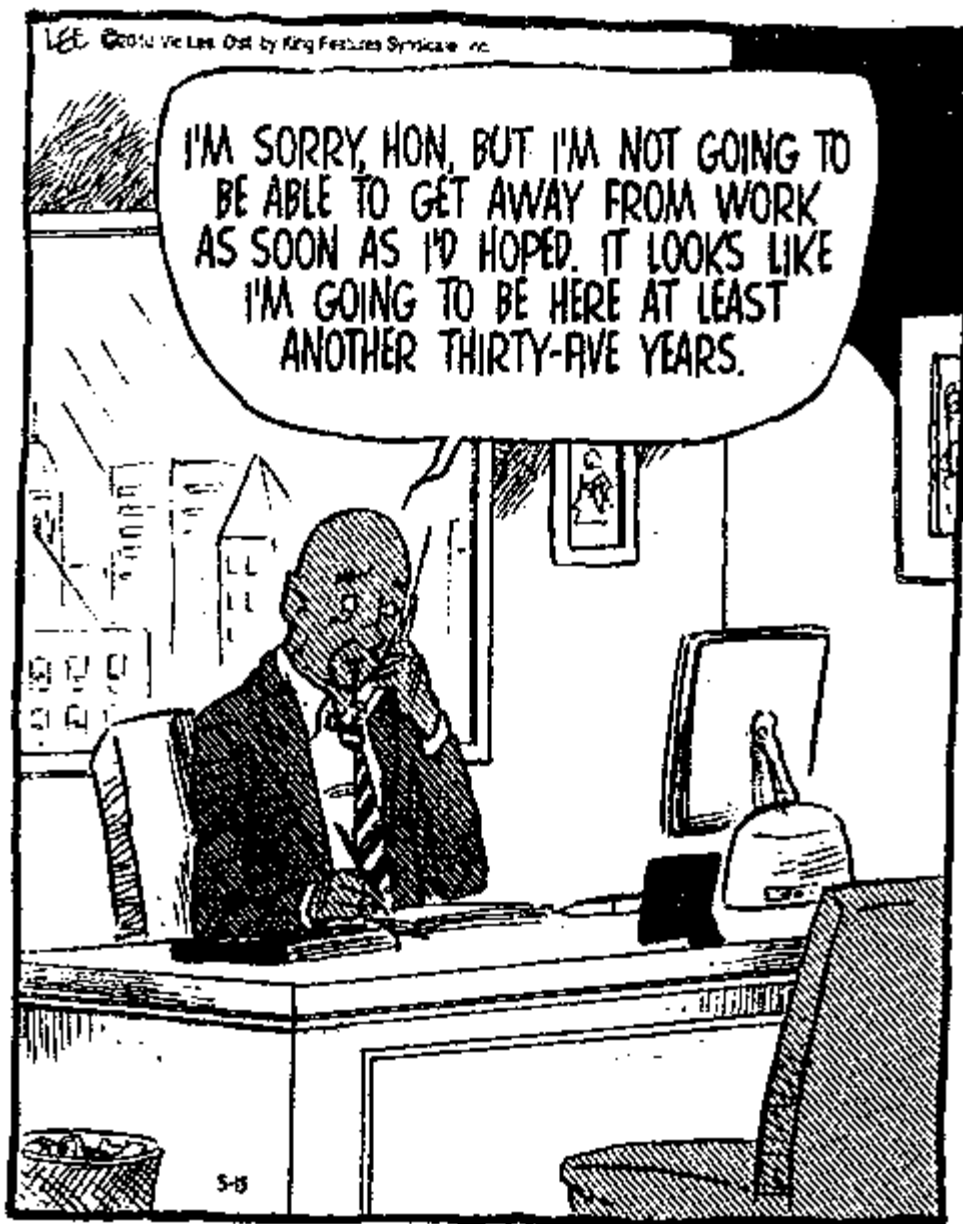
What to do with the Numbers?

- 2. Debit - Net OPEB Obligation (#23800)
 - Credit – Expense – employee health care benefits (object code #130)
 - To reclassify a portion of the insurance premium from an expense for active employees to a reduction of the liability established for OPEB. [Use the amount of **Contributions** in your actuarial or AMM report here.]
 - In Proprietary Funds
 - In Government-Wide (GW) Statements
 - No Entry in Governmental Funds: As a reconciling item in the Reconciliation Statement – Governmental Fund Statements to GW Statements (Track in "GLTDAG" in AFR).

What to do with the Numbers?

- 3. Debit - OPEB Expenditure (object code #180)
 - Credit – Expenditure – employee health care benefits (object code #130)
 - To reclassify a portion of the insurance premium from an expense for active employees to an expenditure (contribution) for OPEB. [Use the amount of **Contributions** in your actuarial or AMM report here.]
 - In Governmental Funds only
 - Optional – may be useful for decision makers

Pardon My Planet



Note Disclosure – Required Elements

- See Example Note Disclosure (in AFR – Pg. 32A – 32C)
- Required Elements:
 - A. Plan Description (revise example to fit your plan)
 - Name of plan, plan administrator, & whether plan is:
 - single-employer : (example - single employer that purchases insurance from an insurance company)
 - agent multiple-employer: (example – MMIA participant)
 - OR cost-sharing multiple employer (arrangement similar to PERS)
 - Brief description of types of benefits & authority under which benefit provisions established/amended (Authority for Implicit Rate Subsidy = State law)

Note Disclosure – Required Elements

- Required Elements - continued:
 - A. Plan Description – continued
 - Whether the OPEB plan issues a stand-alone financial report or is included in the report of another entity, and, if so, how to obtain the report.
 - B. Funding Policy (revise example to fit your plan)
 - Authority under which obligation of plan members, employers, and other contributing entities to contribute to the plan as established or amended. (Authority for Implicit Rate Subsidy = State law)
 - Required contribution rates of plan members, expressed as an amount per member or as a % of covered payroll.

Note Disclosure – Required Elements

- Required Elements – continued:
 - B. Funding Policy – continued:
 - Required contribution rates of employer (\$ or % of covered payroll). If single-employer or agent plan, disclose how the rate is determined OR that **plan is financed on a pay-as-you-go basis.** If cost-sharing plan, disclose required contributions in dollars and % contributed for the current and 2 preceding years; and how rate is determined OR that plan is financed on a pay-as-you-go basis.
 - C. Current-yr annual OPEB cost & contributions made; Components of annual OPEB cost (ARC, interest, & adjustment to ARC), increase/decrease in net OPEB obligation, & net OPEB obligation at end of year. (s/b specific to your plan)

Note Disclosure – Required Elements

- Required Elements – continued:
 - D. For current and two preceding years, annual OPEB cost, % of cost contributed, & net OPEB obligation at the end of the year. (**N/A for transition year**)
 - E. Information about the funded status of the plan (**N/A for most**, as most local governments will not fund OPEB).
 - F. Disclosure of info about actuarial methods & assumptions used in valuations on which ARC, annual OPEB cost, and funded status and funding progress of OPEB plans are based, including the following:

Note Disclosure – Required Elements

- Required Elements – continued:
 - Disclosure that actuarial valuations involve estimates , and that actuarially determined amounts are subject to continual revision as new estimates are made; (**Boilerplate**)
 - Disclosure that the required schedule of funding progress (RSI) presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits; (**Boilerplate**)
 - Disclosure that calculations are based on types of benefits provided and the pattern of sharing of costs between employer and plan members at the time of each valuation; (**Boilerplate**)
 - Disclosure that actuarial calculations reflect a long-term perspective; (**Boilerplate**)

Note Disclosure – Required Elements

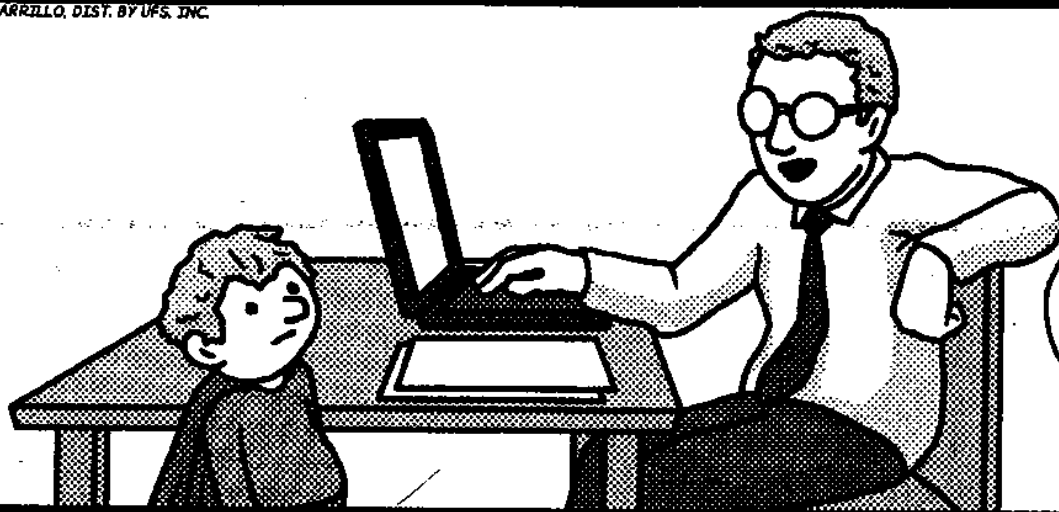
- Required Elements – continued:
 - Identification of the actuarial methods and significant assumptions used to determine the ARC for the current year: (these elements will be specific to your plan)
 - Actuarial cost method
 - Methods used to determine actuarial value of assets
 - Assumptions with respect to inflation rate, investment return, benefit increases (if applicable), projected salary increases, & healthcare cost trend rates.
 - Amortization method (level dollar or level percentage of projected payroll) and amortization period for the most recent actuarial valuation, and whether the period is closed or open.

Note Disclosure – Required Elements

- If you have determined that you will not report OPEB because of immateriality:
 - *May* disclose that fact (to disclose to readers that omission was through informed decision)
 - But – no *requirement* to make “negative” disclosure

Required Supplementary Information (RSI)

- **RSI:** Information required to be presented in separate schedule following notes to the financial statements - Should present info for most recent actuarial valuation and 2 preceding valuations: (AFR – Pg. 32D – Move to RSI Section)
 - Information about the funding progress of the plan: (1) valuation date; (2) actuarial value of assets (may be -0-); (3) actuarial accrued liability (AAL); (4) total unfunded actuarial liability (UAAL); (5) value of assets as % of AAL (“funded ratio”); (6) annual covered payroll; (7) ratio of UAAL to annual covered payroll.
 - Factors that significantly affect the identification of trends in the amounts reported including, for example: changes in benefit provisions, size or composition of population covered by plan, or actuarial methods and assumptions used.



YES, BENNY.
I SUPPOSE BEING AN
ACCOUNTANT IS KIND OF
LIKE BEING A SUPERHERO.

LGSB Website Q&A

- <http://doa.mt.gov/lgsb/default.mcpix>
 - Sidebar on left:
 - ****NEW**** OPEB – Frequently Asked Questions

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 - Kim Smith – 841-2905; kims@mt.gov
 - Larry Donovan – 841-2906; ldonovan@mt.gov
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 - Heather Voeller (hvoeller@mt.gov) , Jeannie Ryan (jryan@mt.gov) , Beth Riitano (briitano@mt.gov) (General Questions re AFRs & audits, Filing Fees, Audit Responses, Social Security)